

Top Secret

213

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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday 26 April 1978

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National Intelligence Daily Cable for Wednesday, 26 April 1978

The NID Cable is for the purpose of informing senior US officials.

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SOUTH AFRICA: Vorster's Speech

[Redacted] //South African Prime Minister Vorster's distorted description to Parliament yesterday of the Western proposal for a Namibian settlement is likely to complicate efforts to win



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acceptance of the plan by the South-West Africa People's Organization and by the UN Security Council. Vorster told Parliament yesterday that South Africa has accepted the Western proposal but that the Cabinet's decision was influenced by several "clarifications" of the proposal presented orally by Western envoys to South African Foreign Minister Botha.//

25X1 [] //Vorster's statement included distortions of the Western position on at least three important points.

-- He implied that, if a Namibian constituent assembly asks that South African troops remain until an independent government is established, the Western members of the Security Council will agree. The Western proposal stipulates that the small South African residual force is to be withdrawn shortly after the election of a constituent assembly.

-- He also implied that the Western foreign ministers assured Botha that they intend for the South African Administrator General to have at least as much authority as the UN Special Representative.

-- The Prime Minister implied that the Western governments accept South Africa's contention that its possession of Walvis Bay is not negotiable.//

25X1 [] //The statement in Parliament no doubt was intended to reassure whites in Namibia and in the South African National Party who fear that the security arrangements in the Western settlement plan are inadequate. Vorster's presentation, however, is also likely to intensify opposition to the Western plan by SWAPO leaders and their African backers. They are likely to infer that the Western foreign ministers have made a secret agreement with the South Africans that would undercut portions of the plan that the black Africans regard as vital.//

25X1 [] //Vorster may have timed his acceptance of the Western proposal to head off African demands for broad economic sanctions against South Africa during the UN General Assembly's current special session on Namibia. His statement concerning Walvis Bay is more likely, however, to intensify African pressures for a UN declaration that the enclave must be transferred to Namibia as soon as an independent government is established.

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USSR-CUBA: Difference on Oil

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[] *The USSR may not be willing to provide the added oil supplies called for by Cuban development plans; Cuban trade and industry officials project a doubling of imports of oil from the USSR by 1985.*

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[] The Cubans claim they will need 19 million tons a year of crude oil to fuel new power plants and proposed petrochemical plants that would yield surpluses for export. Increased Cuban refining capacity is to eliminate the need for imported petroleum products. The Cubans assured US officials that Moscow had agreed informally to cover the requirements.

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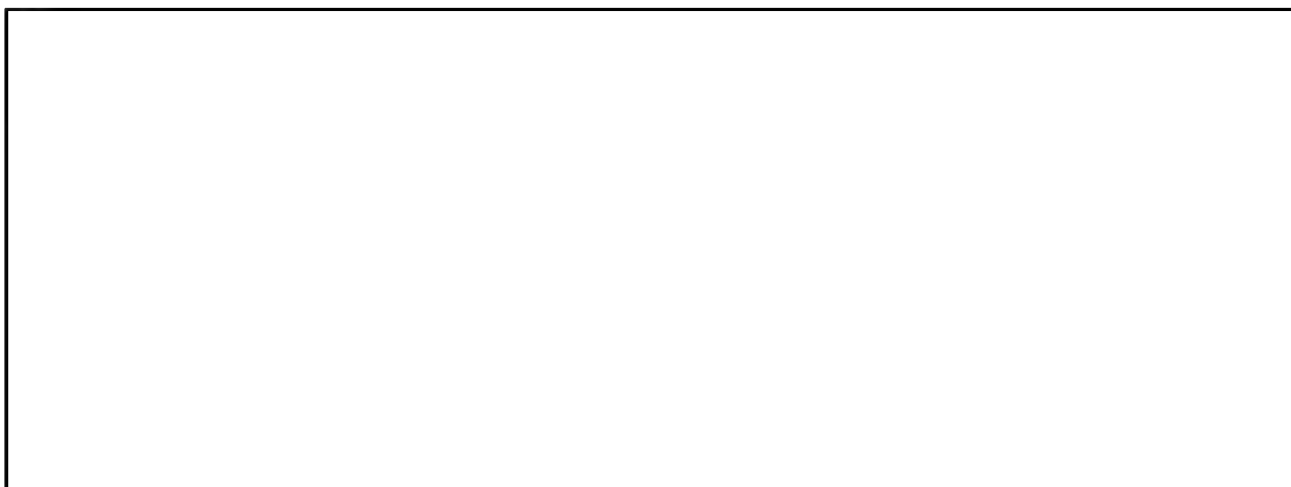
[] In subsequent discussions with US officials, the Soviet trade representative in Havana cryptically described Cuba's post-1980 petroleum requirements as "more than 10 million tons" but stated categorically that the Soviets had made no commitments to provide petroleum beyond 1980. His remarks echo Moscow's line to the East European states--no assurances that increases on oil deliveries can be expected beyond 1980.

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[] Although the Cubans may have intended their optimistic statements to underscore the closeness of Soviet-Cuban relations, Havana undoubtedly will press Moscow to back its ambitious plans for industrial expansion. It appears, however, that the Soviets may be less accommodating on providing petroleum than they have been in increasing imports of Cuban sugar and providing industrial goods that Cuba cannot afford to buy from the West.

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CHAD: Chances for Survival

25X1 [] The renewed offensive by the Libyan-backed rebels in Chad and the impotence of the Chadian Government is beginning to have an effect on the normally apathetic populace. Confidence in the ruling Supreme Military Council has eroded to a dangerous level, and continued military successes by the rebels have gained them political support at the government's expense. Regardless of the outcome of the military struggle, Chad's three-year-old military government will be hard pressed to survive the current crisis.

25X1 [] Rebel propaganda broadcasts are calling upon students and other residents in Chad's capital to demonstrate against the government. []

25X1 [] The Chadians' anti-government sentiment is also reflected in their growing resentment of French military intervention. A poor opinion of the government grows as the protracted struggle with the rebels continues to divert government interest and resources from pressing everyday needs.

25X1 [] Antigovernment demonstrations have occurred in other Chadian cities. The leaders of the demonstrations disavow any relationship with the rebels, but their actions are directly attributable to the government's inability to deal with the rebel threat. The military struggle between northern Muslims and southern blacks is also exacerbating this traditional cleavage in Chadian society in areas other than the battlefields.

25X1 [] The military's poor performance against the rebels, and its inability to function effectively without foreign help, has led soldiers to lose confidence in themselves and their leaders.

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[redacted] //Leaflets distributed in Ndjamena warn French citizens of vengeance for the death of several rebels. [redacted]

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[redacted] Within Chad's Supreme Military Council, Foreign Minister Kamougue, who opposed his government's attempts to negotiate with Libya, has regained the ascendancy. Although coup rumors apparently have abated in recent weeks, President Malloum's position is not secure. Tensions within the council arising from Chadian relations with Libya and the rebels remain unresolved. In addition, scapegoats remain to be found for the Army's poor performance.

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[redacted] The regime's loss of confidence and integrity increase the chances for a change in government or a substantive internal realignment. Any such change is likely to bring with it a re-orientation of Chad's moderate, pro-Western position. [redacted]

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USSR: Brezhnev's Komsomol Speech

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[redacted] In his speech yesterday to the 18th Komsomol Congress, Soviet President Brezhnev presented a relatively optimistic picture of Soviet thinking on disarmament issues. Brezhnev's remarks were the first authoritative public Soviet reaction to Secretary Vance's visit to Moscow last week and to President Carter's announcement on 7 April that the US is deferring its decision on producing enhanced radiation warheads.

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[redacted] Brezhnev declared that last week's talks in Moscow on SALT made "some progress," but he argued that certain US positions remained unacceptable. His tone was distinctly less polemical than that of other Soviet statements in recent months, and he asserted that a SALT II agreement could be reached if both sides were open to "sensible and realistic compromise."

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25X1 [] Brezhnev characterized the decision to defer production of enhanced-radiation weapons as "at best a half-measure" and emphasized that the Soviets preferred an agreement mutually renouncing manufacture of such weapons.

25X1 [] This has been the Soviet position since December, but Brezhnev added a new twist by announcing that the USSR will not begin production of neutron weapons as long as the US does not. The Soviets undoubtedly intend to maintain public pressure on the US on this issue and will raise it at the UN General Assembly's Special Session on Disarmament scheduled to open on 23 May.

25X1 [] Apparently presaging Soviet positions that will be presented at the special session, Brezhnev called for a "complete stop to any further quantitative or qualitative growth of armaments and armed forces with a large military potential," and referred to the customary Soviet disarmament program:

- An end to manufacturing all types of nuclear weapons.
- A ban on all other types of mass destruction weapons.
- An end to development of new types of highly destructive conventional arms.
- A renunciation of military expansion by the permanent members of the UN Security Council and their military allies.

25X1 [] Brezhnev noted that "definite progress" was recently made on the comprehensive test ban issue and that the Western side had recently "slightly refurbished" its proposals on MBFR and had taken into account the positions of the Eastern side "in some respects." He asserted that the USSR had not increased its armed forces in Central Europe for some time and did not intend to increase them in the future. He called on the West to emulate this "salutary example." He did not, however, indicate any new Soviet positions on either a comprehensive test ban or MBFR.

25X1 [] The Soviet President also announced that the USSR had decided to accede to the international treaty banning nuclear weapons in Latin America; he promised not to help any Latin American state gain access to nuclear weapons and not

to use such weapons against states covered by the treaty. This indicates that the Soviets are prepared to sign Protocol II of the 1967 Treaty of Tlatelolco.

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[redacted] Brezhnev's strongest language was in defense of Moscow's policy in the Third World. Using Angola and Ethiopia as examples, he pledged that neither threats nor slander would prevent the USSR from continuing to help developing countries protect their independence, sovereignty, and territorial integrity against "imperialist intervention." He insisted that there is no contradiction "between our policy of detente and peaceful coexistence and our relations with countries that have thrown off the colonial yoke." [redacted]

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NORTH KOREA: Self-Reliance

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[] *Self-reliance has become the key to North Korea's economic program, largely as a result of its inability to pay for Western machinery and equipment. Pyongyang plans to expand two domestic industries--electrical machinery and oil exploration--that have in the past been dependent on imports.*

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[] North Korea plans to expand Taean, the country's major electrical machinery plant, to produce 50-megawatt and possibly a few 100-megawatt electric power generators and turbines. North Korea purchases most of its generating equipment abroad; a breakthrough in domestic production would be a significant step toward reducing its dependence on imports. Approximately 100 of these small, relatively inefficient units would have to be installed, however, to reach the 1984 goal for electric power production.

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[] //Pyongyang also wants to increase domestic oil exploration. Petroleum is one of the few industrial raw materials that North Korea must import. Last year, Pyongyang constructed a permanent oil exploration platform off its west coast, and it is building a ship-based exploration rig.//

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[] //Attempts to purchase such a ship failed last year because of the country's poor credit rating. Chances of discovering oil are not great; if it were found, development of production capability would take several years.//

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[] The North Korean Government's ability to constrain consumption and thus channel a large share of its national resources into high priority investment projects will enable it to achieve some economic growth during the current seven-year plan (1978-84). We estimate, however, that with continued high military spending, and without the benefit of imported technology and equipment, economic growth will be only about half of the 10-percent annual rate called for in the seven-year plan.

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OPEC: Replacing Dollar Pricing

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[] *Members of the Organization of Petroleum Exporting Countries are finding it difficult to deal with the loss in purchasing power of the US dollar. Cartel members are looking into alternative pricing arrangements for oil, but each has drawbacks.*

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Since the first quarter of 1977, the depreciation of the dollar plus the 3.7-percent price inflation of OPEC imports have resulted in a 12.5-percent decline in the purchasing power of the dollar.

The dollar plays three distinct roles in OPEC members' financial affairs: OPEC oil export prices are denominated in dollars; OPEC oil revenues are collected in dollars; and a large portion of the OPEC trade surplus is invested in dollar-denominated assets. Most imports are purchased from nondollar countries, and an increasing share of foreign investments is going into nondollar assets. The real value of export receipts, financial reserves, and foreign investments is thus tied to changes in the foreign exchange value of the dollar.

Exchange rate changes do not affect all OPEC nations equally. Indonesia, Iraq, and Kuwait have been hit hardest because they trade heavily with Japan, West Germany, and the UK. Officials in Iraq and Kuwait say that, if there is no oil price increase soon, they will be forced to restrict development expenditures. We believe, however, that all three countries will run current account surpluses this year, even if oil prices remain frozen through December.

Of the five OPEC countries that will run current account deficits in 1978, Algeria, Ecuador, Gabon, and Venezuela have experienced a purchasing power decline of only about 5 percent. Nigeria has been hit much harder--the cost of its imports is up 10 percent.

OPEC governments are considering replacing the dollar as a denominator for oil prices. OPEC country financial officials have suggested three baskets, based on a weighted average of several currencies, on which to base oil prices--the Special Drawing Right (SDR), the Geneva II basket, and a basket suggested by the United Arab Emirates.

The heavy weight of the dollar in the SDR tends to dampen its fluctuations relative to the dollar. The Geneva II basket combines 11 major currencies but excludes the dollar, a disadvantage if purchasing power parity is being sought because the US still supplies more of OPEC's imports than any other country. In addition, the largest share of OPEC investments is in US dollar assets.

25X1 [] The UAE basket contains a mix of developed country currencies, weighted roughly according to OPEC imports, a 20-percent share of Arab OPEC currencies, and a 10-percent gold share. The Arab OPEC currencies have historically been tied to the SDR and probably could not float independently. Thus, they might dampen fluctuations in the value of the basket relative to the US dollar. The inclusion of the gold price in the basket would probably inflate the value of the basket during periods of unrest on foreign exchange markets and deflate it when foreign exchange rates were steady.

25X1 [] If oil had been priced in one of the suggested currency baskets since 1974, OPEC purchasing power would have been reduced in 1975 and 1976 but would be higher today. SDR pricing would have yielded almost no change, while the UAE basket would have raised purchasing power more than 8 percent. If the switch to a currency basket had occurred along with the last general oil price increase in early 1977, OPEC purchasing power would now be noticeably higher. The SDR would give the lowest increase; the import-weighted Geneva II basket the largest.

25X1 [] If OPEC continues quoting oil export prices in dollars, the purchasing power of oil revenues spent in Japan, Switzerland, the UK, and West Germany will remain relatively depressed until the dollar recovers.

25X1 [] A move to one of the proposed currency baskets would be interpreted by foreign exchange traders as a blow to the dollar. A further decline in the dollar's value would depreciate the value of OPEC assets now held in dollars and raise US oil import costs. OPEC governments are aware that a move to a currency basket would tend to reduce the chances of the dollar's recovery and that such a move would reduce the benefits they would receive when the dollar does recover.

25X1 [] Several OPEC members would prefer to impose a one-time price increase to compensate for their shrunken purchasing power and to remain neutral on the currency denomination question. They dismiss counter arguments within the cartel that a price increase might weaken economic recovery in major industrial countries and further reduce oil demand. Saudi Arabia and Iran, however, remain strongly committed to the price freeze. []

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BRIEFS

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Jordan

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[] The representatives named last week to Jordan's National Consultative Council are largely drawn from the country's traditional East Bank elite. The public has reacted to the appointments in a subdued fashion, apparently because it generally believes the Council will not be effective.

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[] The 60-member advisory body, like the previously dissolved lower house it is designed to replace, contains representatives of all of Jordan's traditional regional, religious, and tribal groupings. Fifteen Palestinians were named to the Council, but all staunchly support the government and none has any current ties to the West Bank. Three women are representatives--the first women to serve at this level.

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[] The professional syndicates, whose recent complaints about the lack of representative institutions had been a strong factor in the King Husayn's decision to create the Council, received only token representation and will probably be unhappy. []

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USSR-France

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[] //The Soviets suffered a number of embarrassments at the ninth congress of the Communist-front World Federation

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of Trade Unions, which ended last Saturday in Prague. The highlight of the week-long congress was the refusal of the WFTU's French affiliate, the General Confederation of Labor, to permit one of its members, Pierre Gensous, to stand for reelection as WFTU secretary general.//

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[] //The French organization--the last significant West European participant in the WFTU--is also pulling its people out of the secretariat and is said to have served notice that it will withdraw from the organization altogether within one year unless its efforts to achieve "democratization" of the WFTU yield some results.//

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[] //The French Communist Party, which controls the CGT, orchestrated the union's performance in Prague in an effort to demonstrate that in still another area it is independent and critical of Soviet policy. The Soviets are certain to be confronted with some difficult choices in determining the future course of the WFTU. Without West European participation, the organization would probably lose even the minimal importance it has enjoyed as a vehicle for Soviet policy. []

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USSR

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[] Coal production in the USSR during the first quarter of 1978 barely exceeded first quarter output in 1977 and extended the poor record of the industry into a third year. Production in 1978 is scheduled to increase 3.3 percent over that in 1977 to 746 million tons; the Soviets had originally set a target of 750 million tons.

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[] Production in 1976 and 1977 increased only 1.5 percent per year, and the 1977 output was 11 million tons short of the 733 million tons planned. Shortfalls were attributed to a variety of operational problems, including difficult geological conditions, poor management, and shortages of rail cars. Construction of new mines was also reported to be lagging.

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[] //The sluggishness of coal production has evidently been accompanied by a sharp reduction in long-range forecasts of output. Minister of the Coal Industry Bratchenko stated in 1975 and again in 1976 that the Soviets would produce 1 billion tons in 1990. According to a press article in January, he now believes output will not reach this level until the end of the century. []

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